

Water Authority vs. MWD Rate Litigation Update

San Diego City Council
Natural Resources & Culture Committee
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San Diego County Water Authority



Drought Headlines: 1990-91

State to Shut Off Water Delivery to Southland

By VIRGINIA ELLIS
and TED ROHRLICH
TIMES STAFF WRITERS

SACRAMENTO — Gov. Pete Wilson on Monday announced new and unprecedented cutbacks of state water deliveries so drastic that Southern California will be cut off from this traditional source of water by mid-March.

Wilson said that heightened drought conditions had forced the state to notify cities and industry

Limits on tap water use urged by staff

By Steve LaRue
Staff Writer

The staff of the San Diego County Water Authority (CWA) will continue to recommend a blanket ban of tap water on private lawns and golf course roughs and fairways despite intense opposition by landscaping contractors and others at a hearing last week.

50% Water-Delivery Cut Will Be Blow to San Diego

■ **Drought:** Metropolitan Water District directors also vote a 90% cut in allocation for agricultural users.

Water Dependence Bodes a Dry San Diego Future

■ **Drought:** A twisted history of water politics has left the county at the vulnerable end of the supply pipeline.

S.D. Faces 31% Cut in Imported Water Supply

By JENIFER WARREN
TIMES STAFF WRITER

Faced with record-low rainfall and no prospects for relief, the Metropolitan Water District declared a water emergency on Tuesday and cut by 31% the amount of water it delivers to 27 agencies from Ventura to San Diego.

Grim water outlook is getting even worse

By Steve LaRue
Staff Writer

SACRAMENTO — Southern Californians are likely to be ordered to cut back their water consumption by an unprecedented 30 percent this year.

Companies cringe at 50 percent cut in water

Firms offer conservation plans to mayor; some say cutbacks could cripple growth

L.A. Ready to Battle San Diego Over Water

■ **Conservation:** DWP officials weigh legal action as southern neighbor refuses to impose rationing.

State Water Project cuts off water to farms; urban slash expected

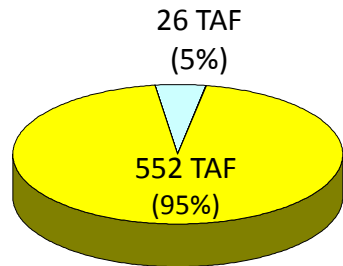
Water: Authority to Vote Today on Mandatory Restrictions



Water Supply Portfolio Diversification

1991

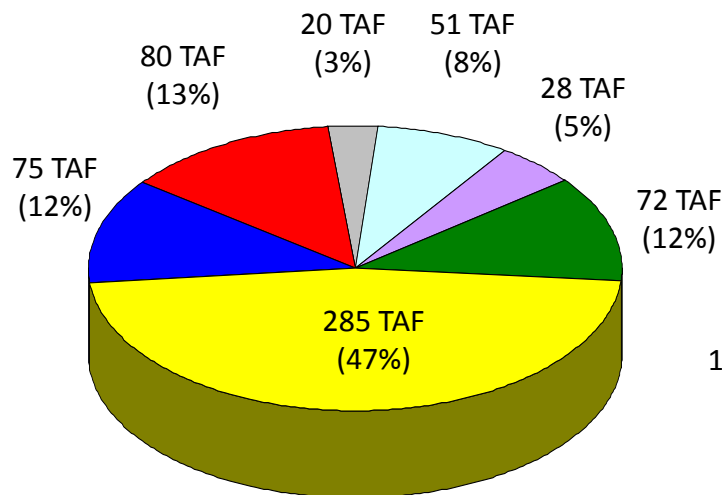
Population 2.49 mil



Total = 578 TAF

2011 (Allocation Year)

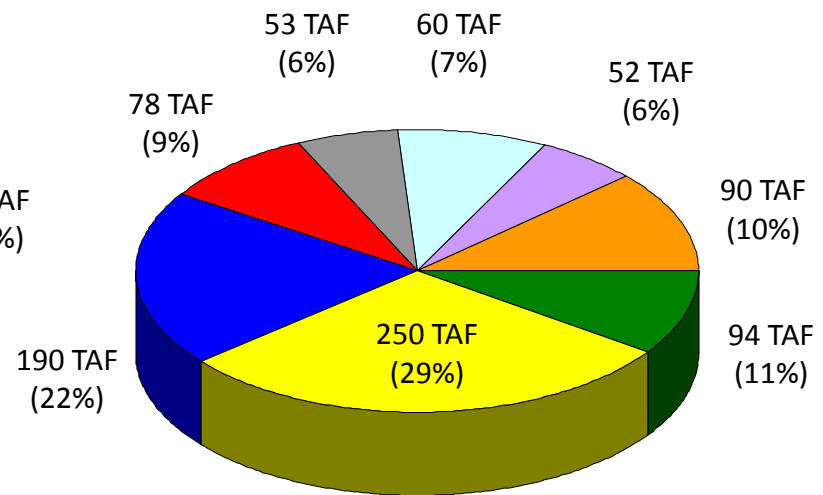
Population 3.16 mil



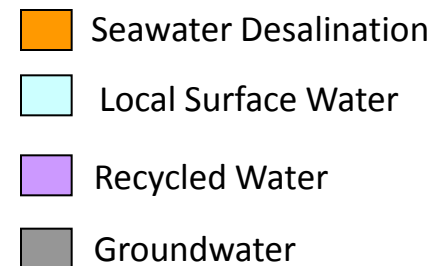
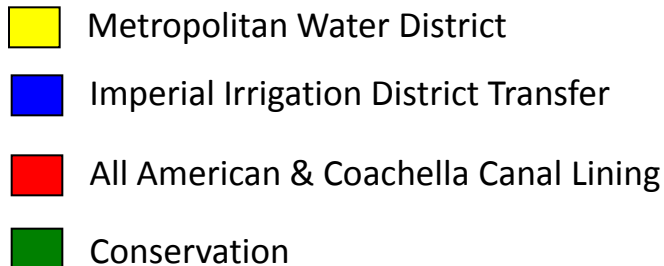
Total = 611 TAF
(includes conservation savings)

2020 Goal

Population 3.41 mil



Total = 867 TAF
(includes conservation savings)

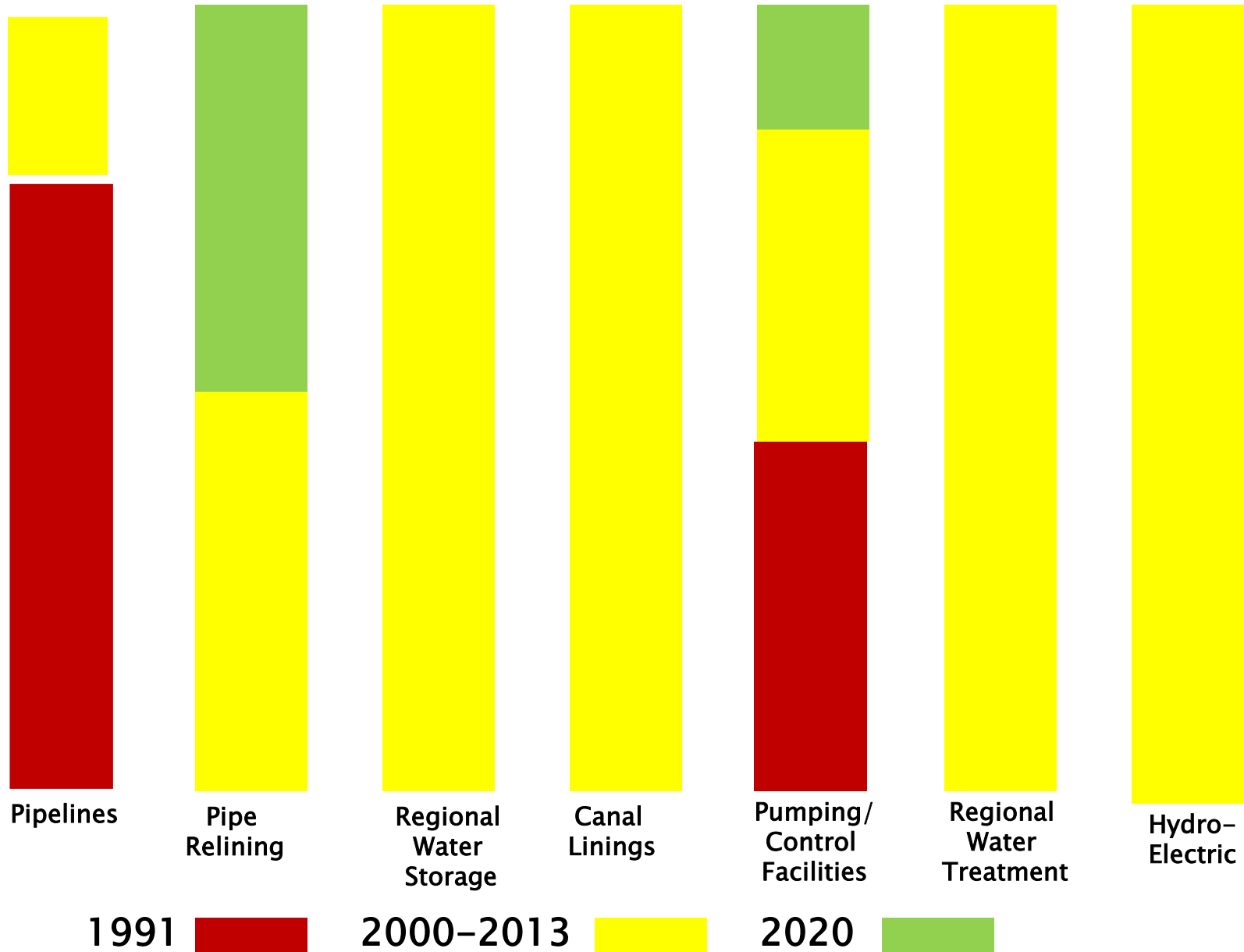


Investing in Water Reliability

- ▶ **Improving imported water supply reliability**
 - Imperial Irrigation District Transfer – 200,000 AF/Y
 - Canal Lining Projects – 80,000 AF/Y
- ▶ **Local supply development**
 - Groundwater
 - Recycling
- ▶ **Conservation**
 - Reduction of 27% since 2007
- ▶ **\$3.8 billion Capital Improvement Program to enhance infrastructure**
 - Improve regional storage, including emergency storage
 - Improve delivery system
 - New pipelines, pump stations and related facilities
 - Renowned pipeline relining program
 - Expand water treatment capacity

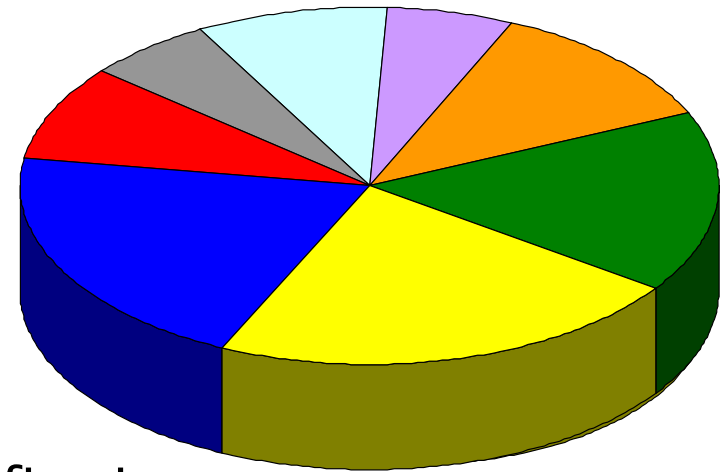


Major CIP Investments Since 1991



The Value of Our Investments

- ▶ Over past two decades:
 - Reduced reliance on MWD by 50%
 - Achieved major water supply diversification milestones
 - Secured 280,000 AF/YR of long-term reliable new imported supplies (QSA)
 - Achieved sustained water conservation
 - Invested billions in new, major water supply infrastructure
 - **Vastly improved water supply reliability to protect region's \$186 billion economy and quality of life for 3.1 million people**

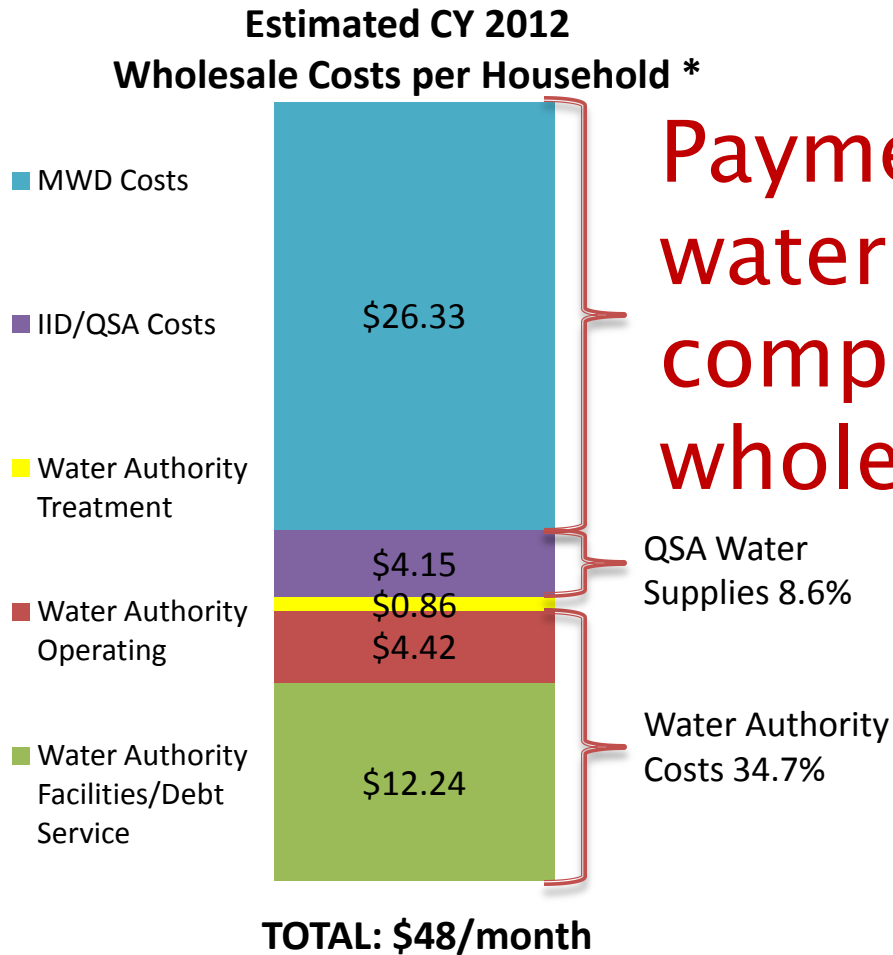


MWD Rate Increases are a Major Driver of Water Authority Rates

- ▶ Since 2006, MWD approved rate increases totaling 75%
 - MWD rates projected to continue rising
- ▶ Supply challenges key driver of MWD rates
- ▶ MWD's flawed rate structure overcharges the Water Authority for wheeling transfer supplies



Biggest Factor Behind Water Rates: Payments to MWD

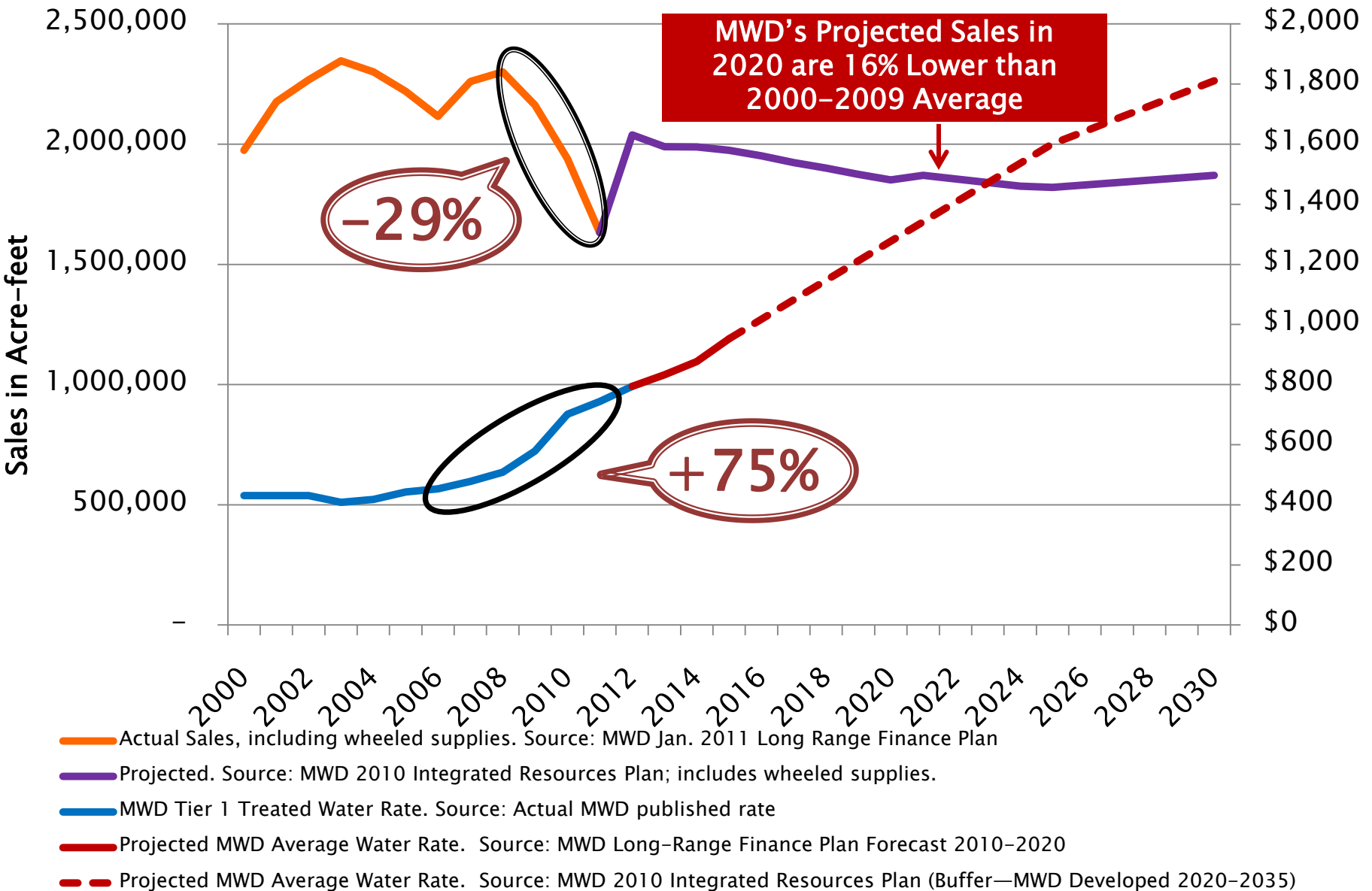


**Payments to MWD for
water and transportation
comprise 55% of the
wholesale cost of water**



MWD Sales Decline & Rate Increases

80% of MWD's revenues come from water sales



Efforts to Contain MWD Rate Increases

- ▶ **Engaged at board, management and staff levels**
 - Advocating cost containment, CIP deferrals and other budget reductions
 - Opposed 2010 Integrated Resources Plan and overdevelopment of supplies
 - Plan to develop up to 500,000 AF/Y of unneeded “buffer” supplies at a cost of billions of dollars
 - Opposing unnecessary supply project expenditures



Efforts to Contain MWD Rate Increases (cont.)

- Actively participated in MWD's Long Range Finance Plan/ Cost of Service review process
 - Advocated changes to methodology
- Opposed FY 12 & FY 13 provisional budgets
- Suing MWD over its misallocation of rates
- Vigorously representing San Diego County's interests
 - San Diego County Grand Jury concurred that Water Authority under-represented on MWD Board



Money Matters

- ▶ The amount of money the Water Authority sent to MWD last year:

\$241,000,000

- ▶ The amount of money at dispute in the Water Authority's rate lawsuit vs. MWD (over 45 years):

\$1,300,000,000 –

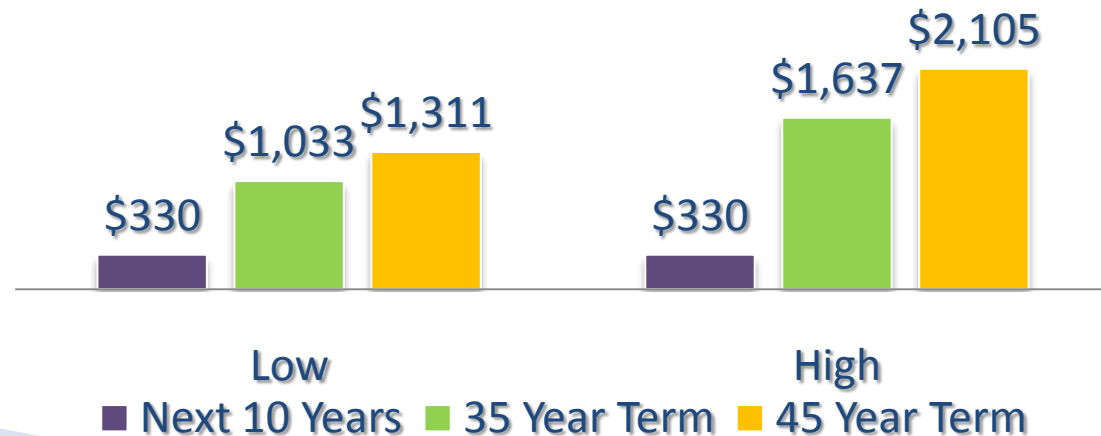
\$2,100,000,000



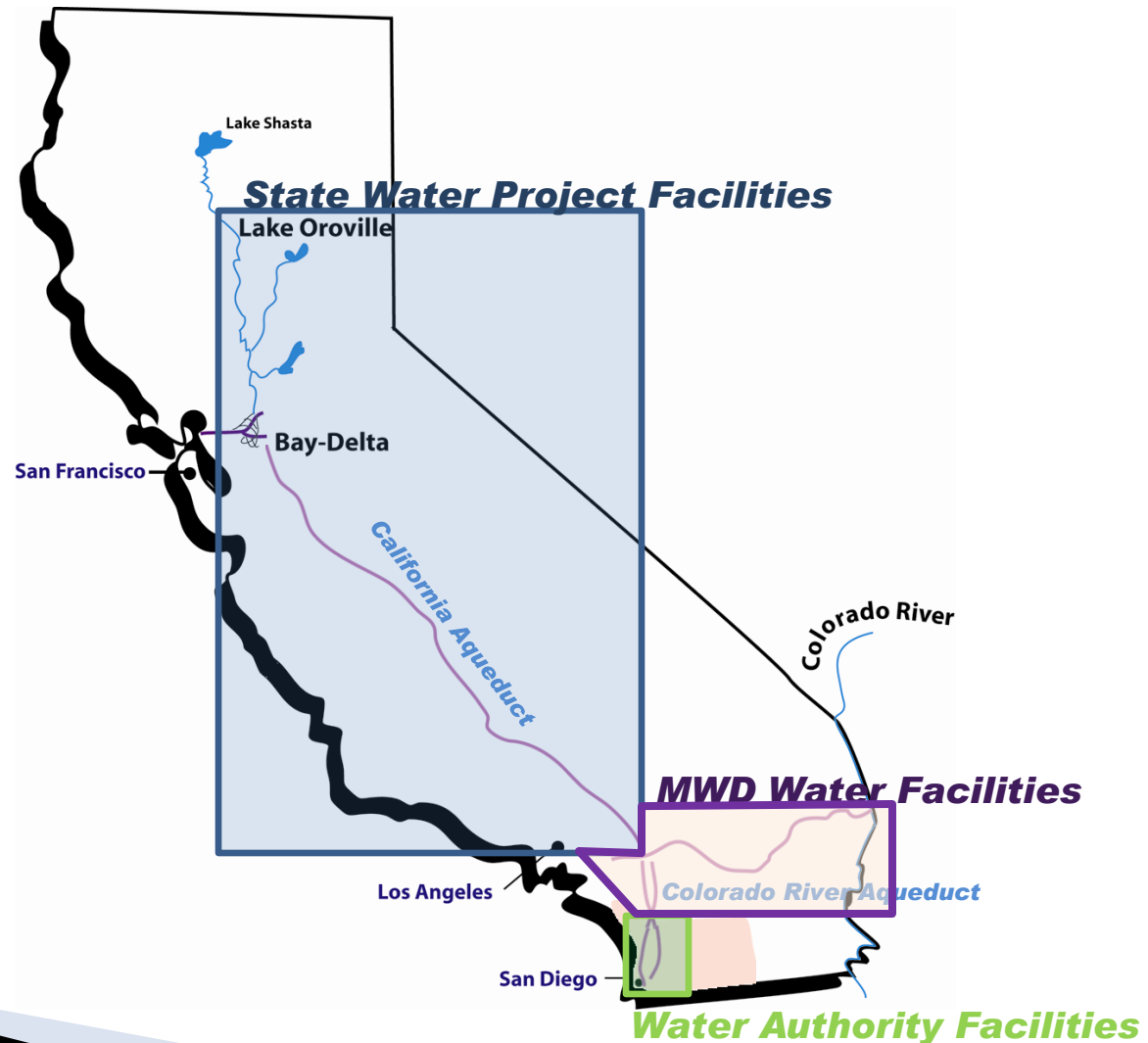
Water Authority Lawsuit vs. MWD

- ▶ **Challenging MWD's rate structure in court**
 - MWD misallocates supply costs to transportation rate categories
 - Overcharging \$31 million in 2011
 - Long-term overcharges: \$1.3 billion to \$2.1 billion
 - Superior Court decision mid-2012

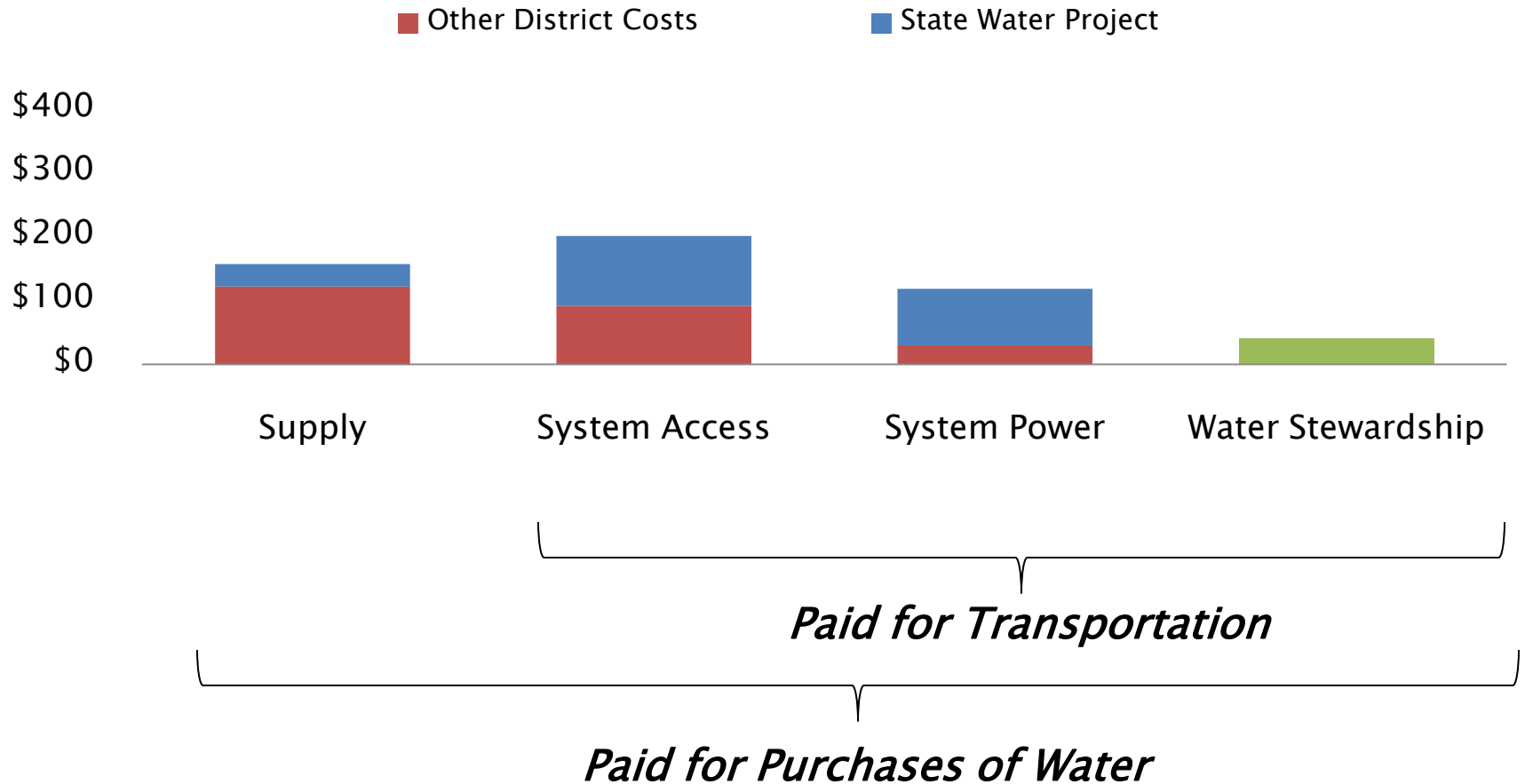
MWD Overcharges



California Water Facilities

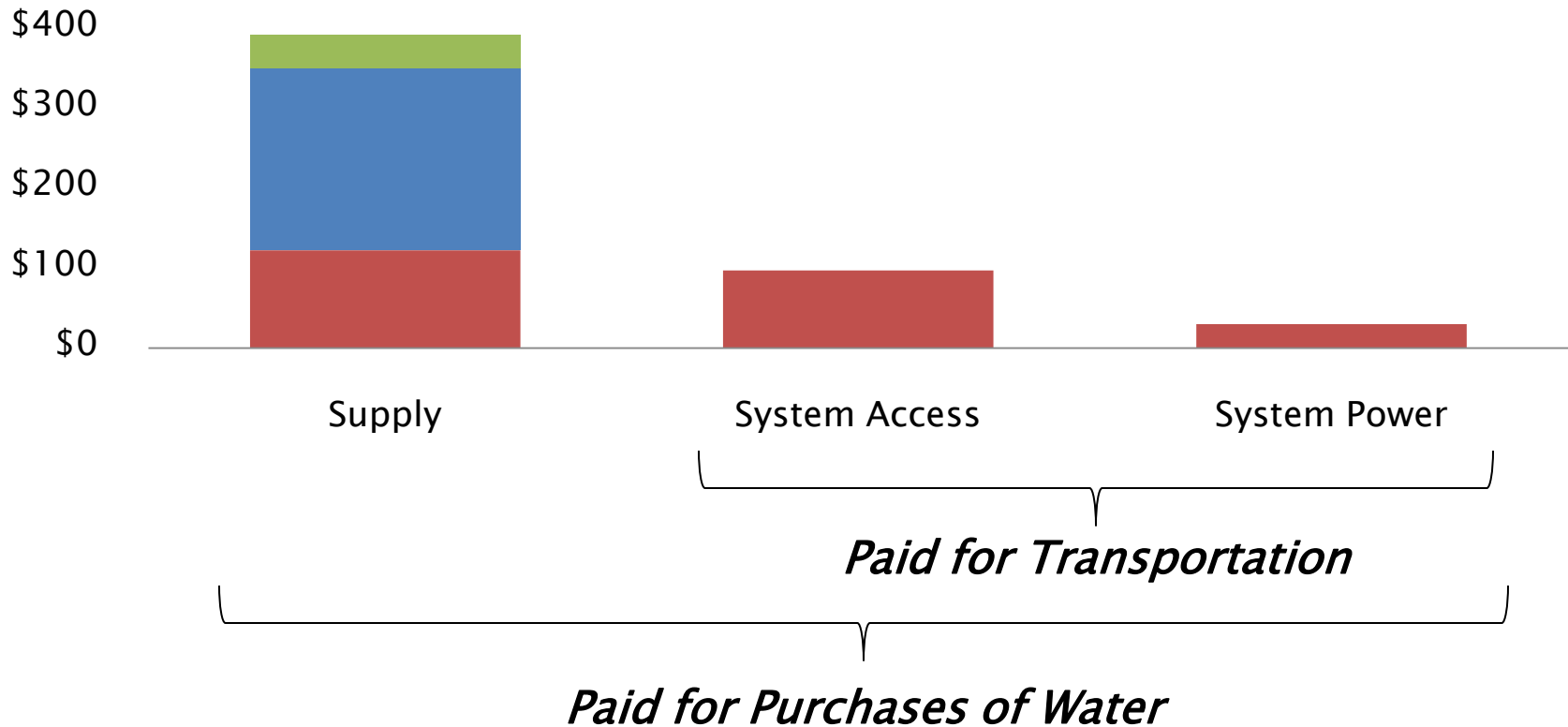


Current Allocation \$/AF



Correct Allocation \$/AF

■ Other District Costs ■ State Water Project ■ Local Water Supply Development



Status of Litigation

- ▶ Case assigned to San Francisco Superior Court Judge Kramer
- ▶ Case has been designated as “complex”
 - Assigned to single judge for all purposes
 - Complex cases generally get more attention/resources from the judge
- ▶ Next case management conference is 8/30/11
- ▶ Appeal likely



Policy Changes at MWD

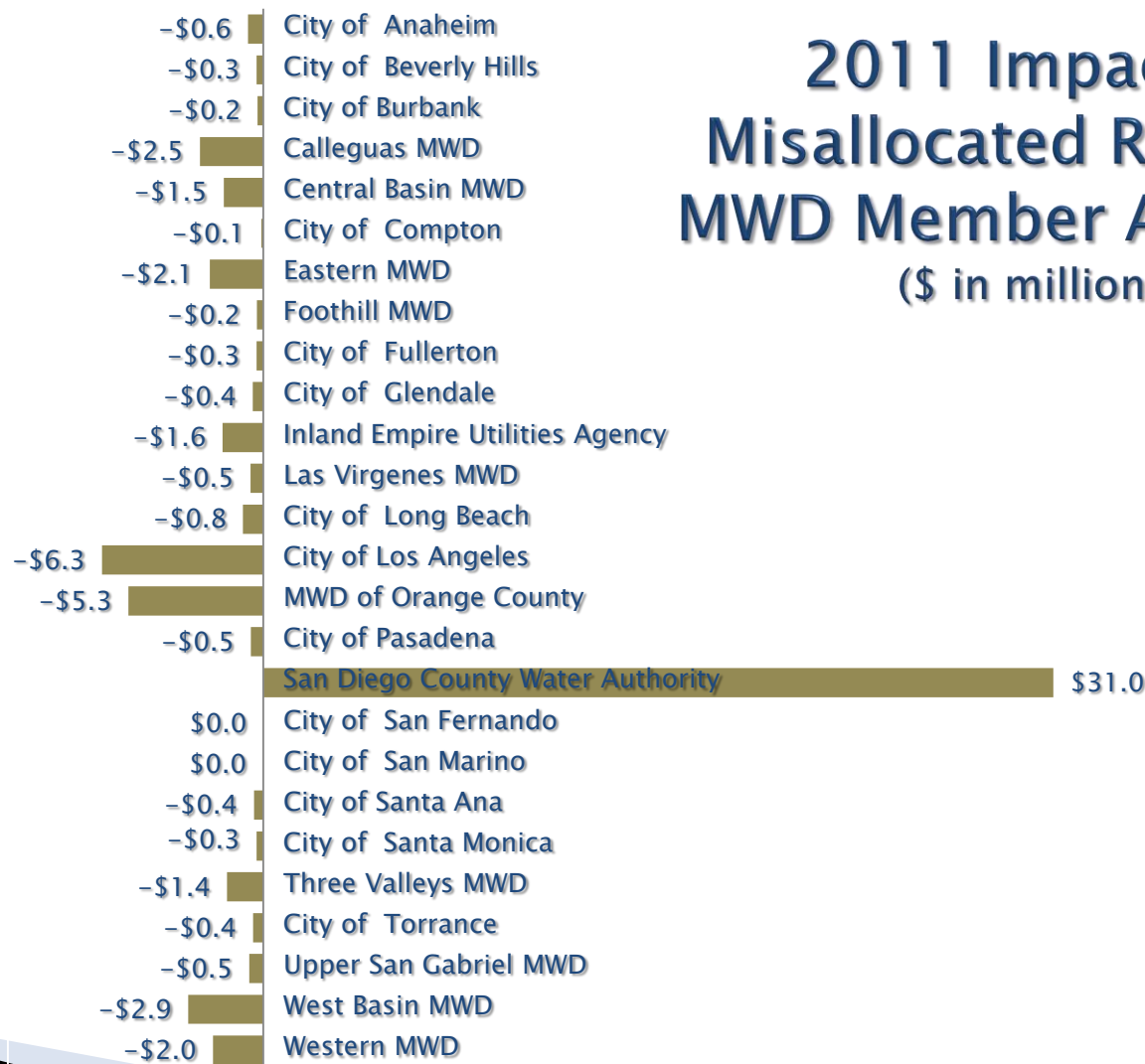
MWD Member Agencies Should Commit to Pay for New Spending

- ▶ The Water Authority has long advocated that MWD obtain firm contractual commitments from its 26 member agencies for new spending programs. MWD's answer?
 - *"...to date, most of our board members have said 'we're not so sure about that.' And, most of our member agencies have said 'No. Thanks, but no thanks, because we prefer this the way it is.'"*
 - *"Should people make those firm commitments going into the future? So far, the member agencies have opted not to. They prefer it the way it is."*
 - Excerpts of remarks by MWD General Manager Jeffrey Kightlinger, speaking at an August 10, 2010 public meeting in San Diego on MWD's draft 2010 Integrated Resources Plan (IRP).



The way it is...

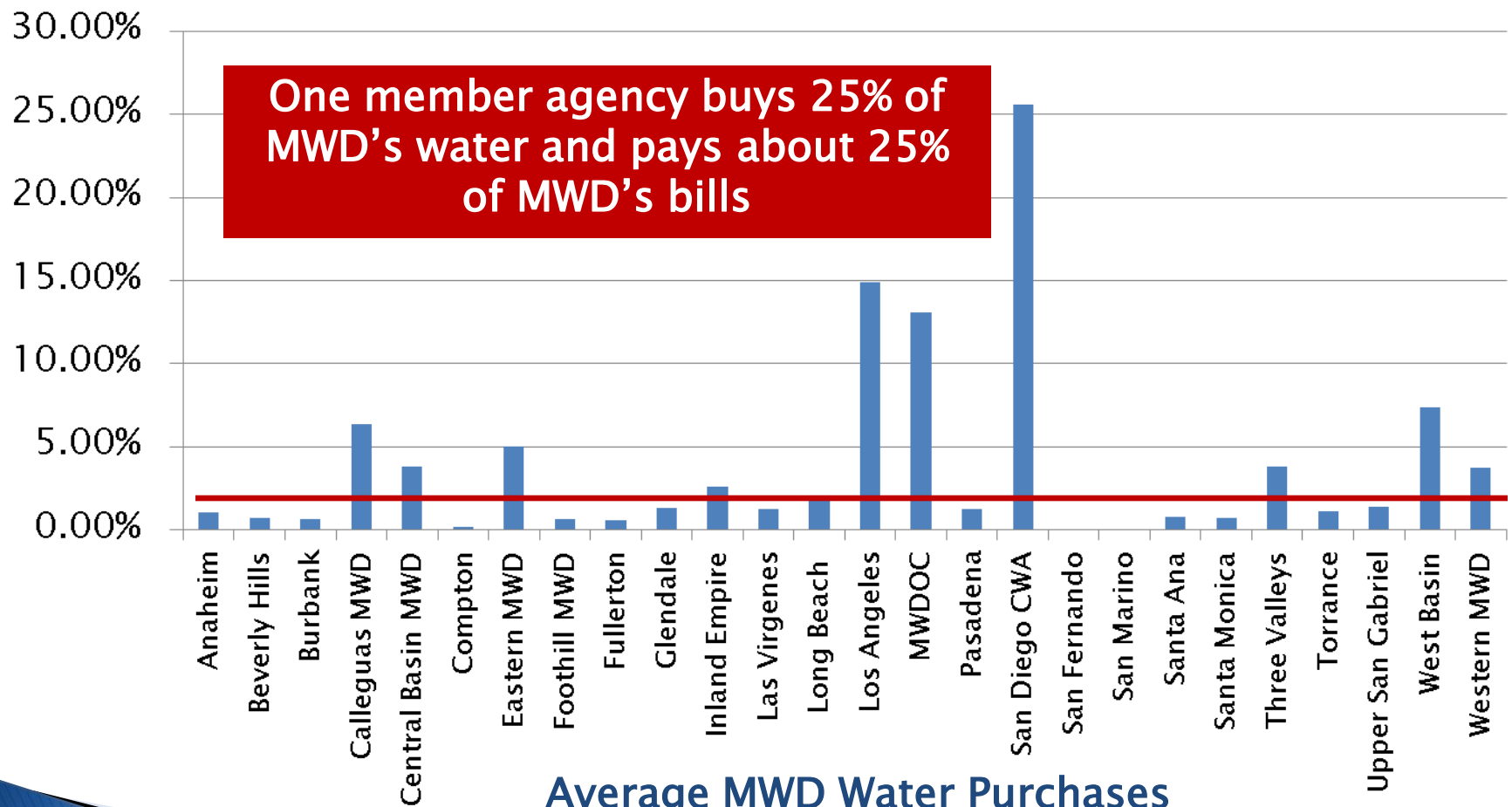
Undercharge ← → Overcharge



**2011 Impact of
Misallocated Rates on
MWD Member Agencies**
(\$ in millions)



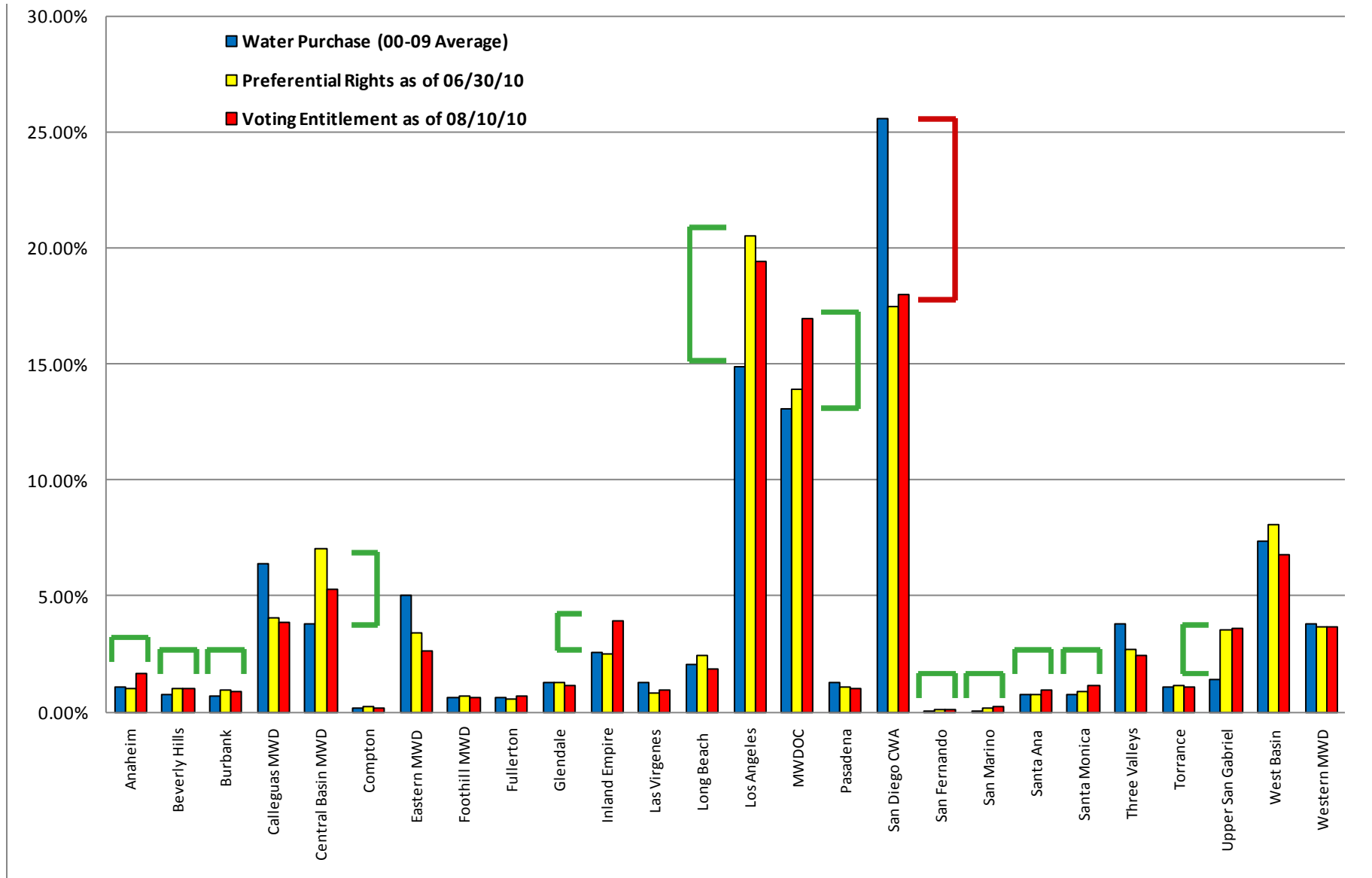
The way it is: Disconnect Between MWD's Spending Decisions and Paying for Them



Average MWD Water Purchases
by Member Agency (2000-09)



The way it is: Water and Voting Rights also Disconnected from Payments



Critical Issues for our Region

- ▶ Water Authority striving to provide reliable water supply for region's \$186 billion economy, 1.3 million full-time jobs, and the quality of life for 3.1 million people
- ▶ Water Authority needs a reliable supply from MWD – at an affordable and equitable cost
- ▶ Water Authority needs a fiscally sustainable MWD
 - Adopt fiscal policies, stable revenues and respect ratepayers



Action Requested:

**Recommend San Diego City Council
adopt resolution in support of
Water Authority vs. MWD litigation
efforts**



Questions

